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DEPARTMENT OF TRANSPORTATION

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WASHINGTON, D.C.

Joint Application of

CONTINENTAL AIRLINES, INC.

and

COMPAÑIA PANAMEÑA DE AVIACIÓN, S.A.

under 49 U.S.C. §§ 41308 and 41309 for approval
of, and antitrust immunity for, an alliance agreement

Docket OST-00-

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JOINT APPLICATION OF CONTINENTAL AIRLINES, INC.
AND COMPAÑIA PANAMEÑA DE AVIACIÓN, S.A.

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JOINT APPLICATION OF CONTINENTAL AIRLINES, INC.
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I. INTRODUCTION

Continental¹ and COPA (together, the "Joint Applicants") apply for approval of and antitrust immunity for their alliance agreement ("Agreement") pursuant to 49 U.S.C. §§ 41308 and 41309.² The Joint Applicants ask that antitrust immunity for the Agreement be made effective immediately. Grant of the requested approval and immunity is essential to ensure effective competition on U.S.-Central America, U.S.-South America and U.S.-Caribbean routes, particularly in light of American's alliances with other Latin American carriers. Continental and COPA have de

¹ Common names are used for airlines.

² As used in this joint application, "alliance agreement" or "Agreement" means the Alliance Agreement dated May 22, 1998, and any agreements or transactions by the Joint Applicants pursuant to it. The alliance agreement was submitted to the Department with the Continental/COPA codeshare application on June 12, 1998.

minimis route overlap (Panama City-Guayaquil and Panama City-Quito only) and their proposed alliance is "end-to-end."

The Department has previously recognized that the Continental/COPA alliance would bring significant new competition to U.S.-Central America routes, as well as U.S.-South America and U.S.-Caribbean routes.³ Approval and antitrust immunity will enable both carriers to operate more efficiently and allow their alliance to reach its full potential.

The Continental/COPA alliance offers consumers many benefits, including:

- A broad network, comprising some 135 potential city-pairs, making U.S.-Central America and South America travel more accessible to consumers, with convenient new routings which will compete with the other alliances already immunized by the Department, such as American/Lan Chile, and with codeshare arrangements in the Americas and elsewhere, including American/TACA Group and United/Varig.
- More value to the customer, made possible through the synergies and efficiencies that antitrust immunity will permit.
- A wide choice of online routings and schedules between the U.S. and Central America and between the U.S. and the rest of Latin America.
- Seamless, coordinated connections between alliance flights, including single tickets and handling of baggage and cargo.
- Service offered by two airlines known for their commitment to high quality service and innovation.
- A single frequent flyer program, offering customers of both airlines a wide range of opportunities both for earning mileage and for enjoying travel awards and premium service features.

³ Order 98-5-26 at 16.

Particularly in light of the increased competition the Continental/COPA alliance will bring to the key Miami gateway for Latin America and the "end-to-end" nature of the Continental and COPA networks, approving the alliance and granting it antitrust immunity will serve the public interest. Granting antitrust immunity is also consistent with the Department's precedents immunizing and approving other alliances and with the U.S.-Panama Open Skies Agreement. The Continental/COPA alliance should be approved and immunized on an expedited basis.

II. THE CONTINENTAL/COPA ALLIANCE AGREEMENT

The Joint Applicants executed the Alliance Agreement on May 12, 1998, and Continental also acquired a 49% stake in COPA Holdings, S.A., the parent company of COPA and related companies. On July 9, 1998, the Department granted the Joint Applicants authority to conduct mutual codeshare services, and they commenced such codeshare services on June 10, 1999.⁴

Although Continental and COPA will continue to be independent companies, the Joint Applicants propose to enhance their approved codeshare arrangement through activities that will enable them to operate as though they had merged. Such a comprehensive alliance will promote greater efficiencies for the benefit of the

⁴ The Department authorized Continental to display the COPA "CM" code on Continental flights between the U.S. and points in Central America, between points within the U.S., between points in the U.S. and beyond the U.S. and between points in Central America and points not in the U.S. The Department also authorized COPA to display the Continental "CO" code on COPA flights between Central America and U.S. points other than Houston, Newark and Cleveland, between points in Central America and between Central America and points beyond Central America. (See Statement of Authorization 98-65 issued July 9, 1998)

Joint Applicants and the traveling public. The key elements of the Agreement, in addition to reciprocal codesharing, include:

1. Schedules Continental and COPA will continue to market and operate shared code segments displaying both parties' designator codes, and they plan to expand their codeshare relationship as permitted by applicable bilateral agreements. Codeshare segments will include jointly determined, commercially reasonable routes systemwide with full reciprocity. The Joint Applicants will plan their respective schedules for U.S.-Panama service and related connecting services jointly to optimize service options available to consumers and to minimize connecting times for the benefit of consumers. The Joint Applicants will synchronize schedule changes to provide a high level of customer service.

2. Revenue Sharing, Codeshare Commission and Proration on Shared Code Segments The Joint Applicants will allocate revenues derived from the operation of their alliance services as specifically agreed. Allocation will include revenue sharing, codeshare commissions and proration. In addition, revenue gains and cost efficiencies derived from the alliance of the Joint Applicants will benefit both of them.

3. Pricing and Yield Management on Shared Code Segments The Joint Applicants will set fares jointly on shared code segments. To the extent practicable, Continental and COPA will make available to each other all seats in each inventory class for codeshare segments and on COPA/Continental interline connecting flights.

4. Marketing Programs The Joint Applicants will work to develop and implement mutually agreeable joint marketing programs to help promote their codeshare and frequent flyer relationship and to increase revenues from traffic on the codeshare segments. Where applicable, Continental and COPA will include each other in marketing programs. The Joint Applicants will also establish agency and corporate incentive compensation programs that provide an incentive to customers to increase their aggregate business on the Joint Applicants' services. A new brand and marketing image for COPA has already been implemented.

5. Flight Display The Joint Applicants will each endeavor to display the other carrier's designator codes for all codeshare segments in schedules, computerized reservation systems, and the Official Airline Guide.

6. Quality of Service Continental and COPA will each continue to provide the highest level of service and will endeavor to coordinate their schedules to maximize passenger convenience and service, expedite the transfer of all passengers and baggage making connections between their networks and make its airport operations contiguous where possible.

7. Frequent Flyer Program COPA has adopted the OnePass frequent flyer program as COPA's primary program effective February 1, 1999, and an immunized alliance will permit the Joint Applicants to use OnePass effectively in joint marketing programs.

8. Airport Clubroom Usage The Joint Applicants have jointly developed an Airport Lounge in Panama to provide convenience to customers traveling to,

from, and transiting, Panama. COPA markets Continental's President's Club Program in Latin America, and each carrier extends to the other non-discriminatory lounge access to authorized passengers, regardless of ticketing carrier.

9. Procedures and Ground Handling The Joint Applicants will harmonize their physical operations with respect to components, operations, quality, appearance, conditions of carriage and any other aspects of the physical operations as they agree.

10. Reservations and City Ticket Offices The Joint Applicants will coordinate their reservations systems and the functions of their city ticket offices when possible.

11. Joint Advertising and Publicity The Joint Applicants will jointly promote the alliance as part of their ordinary advertising efforts.

12. Information Sharing The Joint Applicants will share research studies and booking, revenue, traffic, yield, cost and other data with each other as it pertains to their common areas of cooperation.

13. Joint Selling The Joint Applicants will sell seats on each other's aircraft in a non-discriminatory fashion and will undertake joint sales arrangements.

14. Management and Initial Dispute Resolution The Joint Applicants have created a steering committee composed of senior officers of each carrier to identify profit-maximizing activities and to attempt to resolve disputes that occur under the agreement.

III. THE ALLIANCE AGREEMENT SHOULD BE APPROVED UNDER
49 U.S.C. § 41309, AND ANTITRUST IMMUNITY SHOULD BE
GRANTED UNDER 49 U.S.C. § 41308

A. Grant of the Joint Application Will Provide Important
Public Benefits That Will Not Otherwise Be Available

Full implementation of the Joint Applicants' Agreement will enable them to integrate operations and enhance competition in the burgeoning U.S.-Central America and U.S.-South America regions and at the key Miami, Orlando and Los Angeles gateways. COPA provides Continental access to Miami, Orlando and Los Angeles, where COPA flows traffic between the U.S. and its Panama City hub, enabling Continental to compete with American's Latin American hub at Miami and other carriers' Latin American service. Continental gives COPA access to the North American region, besides Miami, Orlando and Los Angeles, through Continental's flights between Panama City and its Houston and New York/Newark hubs and on Continental's flights between COPA's U.S. gateways and other points in the U.S., via its Cleveland, Houston and New York/Newark hubs.

Although the U.S.-Panama Open Skies Agreement allows the Joint Applicants to serve the codeshare routes individually they cannot do so since neither Continental nor COPA individually has the resources to provide the contemplated alliance flights throughout the Western Hemisphere alone. COPA has a record of excellent customer service, profitability and growth, but, as a relatively small airline, it cannot possibly gain the full benefits of open skies on its own. Continental is the fifth largest U.S. airline, but it does not operate flights serving Central America at the key U.S.-Latin America gateways of Miami, Orlando

and Los Angeles, which COPA and other U.S. and foreign competitors serve. While the Joint Applicants' codeshare authority allows them to expand service, a grant of antitrust immunity is necessary to enable them to integrate activities to the degree necessary to compete effectively on U.S.-Central America, U.S.-South America and U.S.-Caribbean routes with other U.S. and foreign carriers and alliances, including the American/TACA Group alliance and the immunized American/Lan Chile alliance.

The proposed alliance will improve consumer convenience and choice significantly, produce operating efficiencies that will create greater value for passengers and shippers and generate economic benefits for communities. The Continental/COPA alliance will also benefit the employees and shareholders of each company. Employees will benefit from growth opportunities at both airlines, and shareholders will enjoy improved returns resulting from synergies and growth.

The Department's study on codesharing and other cooperative arrangements recognized the benefits that can be achieved through antitrust immunity:

The granting of antitrust exemption permits carriers involved in international alliances to discuss and jointly decide on fare levels and the capacity deployed. . . . The result is that both airlines can aggressively market service in every city-pair market they serve. . . . Antitrust immunity allows alliance partners to share revenue equally, assuring that both carriers can capture the benefits of the alliance.

(Study of International Airline Code Sharing, prepared for the Office of the Secretary of Transportation, December 9, 1994, at 9) The Department should make those same benefits possible on U.S.-Central America, U.S.-South America and

U.S.-Caribbean routes by approving the proposed Continental/COPA alliance and granting antitrust immunity, just as it has immunized other alliances.

B. Approval of and Grant of Antitrust Immunity Will Further U.S. Foreign Policy and U.S.-Panama Open Skies Objectives

The U.S.-Panama agreement signed in May 1997 is fully open. The U.S. has promoted the U.S.-Panama agreement as a milestone for open skies between the U.S. and Latin America, and immunizing the proposed end-to-end Continental/COPA alliance will encourage the fulfillment of U.S. foreign policy objectives underlying the U.S.-Panama agreement.

The U.S.-Panama agreement was intended to provide consumers with important benefits, including the price competition and lower prices that result generally from alliance agreements with little or no overlap. (DOT Press Release, Office of the Assistant Secretary for Public Affairs, May 9, 1997, at 1) Granting antitrust immunity will enable the Joint Applicants to provide these public benefits, helping to fulfill the objectives of the U.S.-Panama agreement.

C. Approval of The Alliance Agreement is Supported by the Statute, the U.S.-Panama Open Skies Agreement and the Department's Policies and Precedents

The proposed Continental/COPA alliance is supported by the relevant statute, the U.S.-Panama Open Skies Agreement and the Department's precedents in previous antitrust immunity and alliance proceedings. Because the proposed Continental/COPA alliance has de minimis route overlap and increases competition, the Department's usual antitrust analysis supports approval.

1. The Joint Application Meets The Department's
Standards for Grant of Antitrust Immunity

The Department has discretion to grant antitrust immunity to agreements approved under 49 U.S.C. § 41309 if it finds that immunity is required in the public interest. The Department's well-established policy is to grant antitrust immunity for agreements that do not substantially reduce or eliminate competition if the Department concludes there is no materially less anti-competitive alternative and antitrust immunity is required in the public interest, and the parties will not proceed with the transaction absent antitrust immunity. (49 U.S.C. § 41309(b)(1)(A), (B)) (see also Order 92-11-27 at 18, Order 93-1-11 at 11, Order 96-5-12 at 15-16, and Order 96-5-26 at 17) The Continental/COPA alliance meets this standard.

a. Antitrust Immunity is Required In The Public
Interest

Granting antitrust immunity to the Continental/COPA alliance is clearly in the public interest. The Agreement will enable Continental and COPA to capture the synergies available from linking their route networks end-to-end, increase the availability of seamless, on-line service through enhanced network-to-network combinations, achieve economies of scale, reduce costs and increase competition. These benefits will enable Continental and COPA to serve the city pairs of their alliance network more efficiently and to compete more effectively with the American/TACA Group, American/Lan Chile and United/Varig alliance networks and other carriers operating between the U.S. and Central America and the rest of

Latin America and the Caribbean. The public will have more price and service options between the U.S. and those regions.

b. **The Joint Applicants Will Not Proceed Beyond
Simple Codesharing Without Antitrust Immunity**

The Department has said:

We are willing to . . . grant immunity if the parties to such an agreement would not otherwise go forward without it, and we find that the grant of antitrust immunity is required by the public interest.

(Order 97-9-21 at 16 and Order 96-5-26 at 17) Like other parties that have contemplated alliances and sought antitrust immunity,⁵ the Joint Applicants are unwilling to implement their alliance as contemplated in the Agreement without the Department's grant of immunity because, without immunity, they cannot be assured that the alliance will not be challenged on antitrust grounds. The Joint Applicants will not expose themselves to the risks and potential costs associated with antitrust litigation to implement their alliance as contemplated in the Agreement.

The many joint operations and activities underlying the Agreement between the Joint Applicants include coordinated schedules, revenue sharing, pricing and yield management, joint marketing programs, and information sharing. Although these joint activities will expand and improve service between the U.S. and Central

⁵ See, e.g., Joint Application of American and Lan Chile filed December 23, 1997; Joint Application of American, Swissair and Sabena filed November 19, 1999; and Joint Application of United and Lufthansa filed February 29, 1996.

America, South America and the Caribbean and achieve merger-type efficiencies that cannot be achieved in other ways, the Joint Applicants will not proceed with their alliance as contemplated in the Agreement in the absence of antitrust immunity because of the continuing risk that their activities could be challenged in U.S. legal proceedings by competitors or others. Instead, without immunity, the Joint Applicants would only implement those elements of the Agreement that would not be subject to challenge on antitrust grounds, and thus the alliance as contemplated in the Agreement could not be implemented.

2. Approval of the Alliance Agreement Is Supported
by the U.S.-Panama Open Skies Agreement and
the Department's Policy Statement

Granting antitrust immunity is consistent with the U.S.-Panama Open Skies Air Transport Agreement and the Secretary of Transportation's May 1995 Statement of United States International Air Transportation Policy. The U.S.-Panama Open Skies Agreement permits the airlines of both countries to operate without restriction between the U.S. and Panama, with open behind, intermediate and beyond traffic rights, and includes all of the essential provisions contained in open skies agreements the U.S. has concluded in Europe, Asia, Africa and Latin America. As Secretary Slater said when he announced the U.S.-Panama Open Skies Agreement:

This first open-skies agreement in Latin America represents the opening of an important market for U.S. citizens, businesses and airlines. It also is an important step for Panama and the Central American region as these countries move to develop further their economic resources and create new tourist destinations.

(DOT Press Release, Office of the Assistant Secretary for Public Affairs, March 14, 1997, at 1) Secretary Slater also emphasized the importance of extending open skies to Latin America, which he described as one of the world's fastest growing economic regions:

This agreement takes us on a path that we hope will lead to a series of open-skies relationships with our aviation partners, not only in Central America but also throughout Latin America. Developing a consensus for open aviation markets in Latin America, just as we are in Europe and Asia, furthers President Clinton's policy of opening aviation markets around the world. It also promises great benefits for passengers and shippers in terms of better and more frequent service and lower fares in the future.

(Id. at 1. Accord, Order 98-5-26 (recognizing that "U.S. consumers should benefit from enhanced passenger and shipper options" under U.S.-Central America open skies agreements)).

3. Approval of the Alliance Agreement Is Supported
by the Department's Precedents

In other antitrust immunity cases, the Department has found that alliance agreements generally promote the public interest and, therefore, satisfy the Department's statutory requirements under 49 U.S.C. §§ 41308 and 41309:

We have found that the Alliance Agreements are likely to benefit the traveling public in numerous markets and are unlikely to reduce competition significantly in most markets. . . . We believe that competition between and among these global alliances is likely to play a critically important role in ensuring that consumers in this emerging environment have multiple competing options to travel where they wish as inexpensively and conveniently as possible.

(Order 96-5-26 at 16; see also Order 96-5-27 at 13-14)

The Department has approved a number of requests for antitrust immunity over the past several years. In its Order to Show Cause in the Application of American and Lan Chile (Docket OST-97-3285), the Department recognized the substantial public benefits of integrated alliances, noting:

Our decision here is consistent with our earlier actions approving and granting antitrust immunity for other alliances between U.S. and foreign airlines in support of our international aviation policy. The Department's actions in these earlier cases have allowed these various airlines to integrate their operations so that they operate very much like a single airline. The Department's experience in these matters has demonstrated that such alliances between U.S. and foreign airlines can benefit consumers.

(Order 99-4-17 at 2, made final by Order 99-9-9) The reasons justifying the Department's grant of antitrust immunity in that case, as well as in the American/Swissair/Sabena, Delta/Swissair/Sabena/Austrian, Northwest/KLM/Alitalia, United/Lufthansa, United/Lufthansa/SAS, American/Lan Chile and United/Air Canada antitrust-immunity cases, are even more compelling here because Continental and COPA offer overlapping flights only between Panama City and Guayaquil, which both carriers serve nonstop, and Panama City and Quito, which Continental serves nonstop and COPA serves one-stop.

The proposed Continental/COPA alliance clearly meets the statutory requirements and the Department's standards for granting antitrust immunity. As shown above, an immunized Continental/COPA alliance will increase competition

significantly. In addition, the Department's positive action on this Joint Application is consistent with, and will promote the fulfillment of, the U.S.-Panama Open Skies Agreement. Granting antitrust immunity to the Joint Applicants will underscore the U.S. commitment to maintaining good U.S.-Panama relations and achieving the substantial benefits of the U.S.-Panama open skies agreement.

D. The Proposed Alliance Will Enhance Rather than
 Reduce or Eliminate Competition

The Alliance Agreement will increase, rather than substantially reduce or eliminate, competition on U.S.-Central America and U.S.-South America routes. While Continental has expanded service between the U.S. and both Central America and South America in recent years, Continental today offers only 22% of the total U.S.-Central America seats and only 10% of the U.S.-South America seats. Only an immunized alliance will permit Continental, working together with COPA, to compete more effectively in Latin America with American, Delta and United and their partners. Because Continental has extensive operations throughout the United States and COPA has extensive operations throughout Central America and much of the rest of Latin America, there is a high level of potential synergy, with only de minimis city-pair overlap, in the two respective networks. The Agreement will enable the Joint Applicants to become a more competitive force in the U.S.-Latin America marketplace in a way that neither would be able to achieve alone. An immunized Continental/COPA alliance will add new competition on routes within the Latin America region now dominated by American's network of alliances.

American itself controls 32% of total U.S.-Central America seats. With its TACA Group and Iberia partners, American controls 61% of the total U.S.-Central America seats.⁶ Neither Continental nor COPA alone can compete effectively on U.S.-Central America routes against the extensive American/TACA Group/Iberia network, which flows traffic over American's Latin American hub at Miami as well as over its Dallas/Fort Worth hub and its New York gateway. Even with their combined seat shares, Continental and COPA together will operate fewer U.S.-Central America seats (27%) than American alone operates today. Continental and COPA together operate only 3.5% of Miami-Central America seats, fewer than American, the TACA Group and Iberia each operate between Miami and Central America. Nonetheless, Continental and COPA together expect to compete with American and its partners, thus enhancing competition on U.S.-Central America, U.S.-South America and U.S.-Caribbean routes and providing the high level of consumer choice contemplated by the U.S.-Panama Open Skies Agreement.

At Miami, Continental will gain more effective access to COPA's Latin America gateway and compete head-to-head against American's Latin America hub operations. American, the TACA Group and Iberia together operate 91% of the seats between Miami and Central America, compared to 6% operated by COPA and

⁶ Although American and Iberia do not codeshare between the U.S. and Central America, American has an ownership interest in Iberia and the two airlines codeshare between the U.S. and Spain and cooperate in frequent flyer and other marketing programs.

Continental. Through the closer cooperation enabled by antitrust immunity, COPA/Continental hope to increase their service between Miami and Central America and at secondary U.S. gateways.

An immunized Continental/COPA alliance will enhance competition in the Latin American region. The Continental/COPA alliance will be a competitor to the United/Varig and Delta/Transbrasil codeshare alliances, as well as American and its Latin American alliance partners, including Lan Chile, the TACA Group and TAM.

Unless the Department grants antitrust immunity permitting the Joint Applicants to implement their alliance, the public will not derive the full benefits of the U.S.-Panama Open Skies Agreement. Moreover, Continental and COPA individually will be severely disadvantaged in competing on U.S.-Latin America routes, which would result in less competition, fewer choices for consumers, and higher prices.

IV. OTHER ISSUES

A. CRS

Consistent with the Department's decisions in Northwest/KLM and Delta/Swissair/Sabena/Austrian, the grant of antitrust immunity here should extend to the coordination of (1) presentation and sale of the carriers' airline services in CRSs and (2) the operations of their respective internal reservations systems. In Northwest/KLM and Delta/Swissair/Sabena/Austrian, the Department determined coordination of CRS activities would arguably reduce competition, but

the competitive concern did not outweigh the justification for grant of antitrust immunity. (Order 93-1-11 at 15 and Order 96-6-33 at 22) The same analysis justifies including CRS coordination within the grant of immunity here.⁷

B. Duration of Approvals

The Joint Applicants ask the Department to approve and grant immunity indefinitely, subject to five-year review, consistent with the duration of approvals granted to Northwest/KLM (Order 93-1-1), Delta/Swissair/Sabena/Austrian (Order 96-6-33), American/Canadian (Order 96-7-21), United/Lufthansa (Order 96-5-27), and United/Lufthansa/SAS (Order 96-11-1).

V. ADDITIONAL INFORMATION

To expedite the Department's review of this Joint Application, Continental and COPA submit the following information, which the Joint Applicants have modeled after the additional information requested in similar immunity and other airline alliance proceedings:⁸

1. Provide all corporate documents (in English or with English translations) dated within the last two years that address competition in U.S.- Central America markets.

⁷ See Order 93-1-11 at 15-16 and Order 96-6-33 at 22.

⁸ See, e.g., Order 98-2-21.

Continental and COPA will file the requested documents separately accompanied by a joint motion for confidential treatment of certain documents under Rule 12.

2. Provide all studies, surveys, analyses and reports (in English or with English translations) dated within the last two years, which were prepared by or for any officer, director or individual exercising similar functions for the purpose of evaluating or analyzing the proposed alliance with respect to market shares, competition, competitors, markets, potential for traffic growth or expansion into geographic markets and indicate (if not contained in the document itself) the date of preparation, the name and title of each individual who prepared the document.

Continental and COPA will file the requested documents separately, accompanied by a joint motion for confidential treatment of certain documents under Rule 12.

3. Provide COPA's Origin & Destination (O&D) traffic data for the most recent 12-month period available for COPA's top 100 markets with a U.S. gateway city as a passenger origin or destination point.

COPA will file the requested document, accompanied by a joint motion for confidential treatment of the document under Rule 12.

4. Provide information showing the effect of the Continental/COPA alliance on international competition, including the competitive effect in city-pair markets where Continental now competes with COPA.

Continental and COPA will file the requested documents separately, accompanied by a joint motion for confidential treatment of certain documents under Rule 12. Continental and COPA do not operate flights on the same routes except for Panama City-Guayaquil and Panama City-Quito, although they currently codeshare with one another on the following international routes where each carrier has the right to sell local traffic: between Panama City and Houston, Guatemala City, Lima, Miami, New York/Newark, San Juan, Santo Domingo and between San Juan and Santo Domingo.

5. Provide information showing the effect of the Continental/COPA alliance on airport facilities, including gates and slots, and whether they are available to U.S. flag carriers that want to begin or increase service at Panamanian cities served by COPA.

Tocumen International Airport, COPA's hub and homeland international gateway airport, currently has fourteen gates with jetbridges, four remote positions, and two domestic gates. Access to gates, counters and other airport facilities is available. Ground handling services are available from other airlines and from service companies operating at the airport. No airport limitations or restrictions would prevent U.S. airlines from increasing or beginning new service at Panama City at this time. Because Tocumen is not subject to IATA slot coordination, there are no limits on the availability of commercially usable slots for U.S. airlines, whether incumbents or new entrants. U.S. airlines may begin or increase service at

this airport as desired. Numerous other airlines, including Air Jamaica, American, Avianca, Delta, Iberia, LAB, Mexicana and the TACA Group, serve this airport.

6. Provide all information on any significant service and equipment changes planned by Continental and COPA and the integration of Continental's domestic route system with COPA's international route system.

At the present time, Continental and COPA do not anticipate any service or equipment downgrades as a result of the alliance. On the contrary, Continental and COPA anticipate that significant service and equipment enhancements will result from the proposed alliance since the carriers will have the ability to plan their schedules jointly. Continental has already assisted COPA in aircraft evaluation, technical training and induction support. In addition, Continental and COPA may make both service and equipment changes for commercial or economic reasons, or to the extent that regulatory or other legal requirements necessitate such changes.

7. Discuss whether and to what extent a grant of the application would or should affect the Joint Applicants' participation in IATA, especially price coordination.

Continental and COPA are aware that the Department has required certain alliance partners seeking antitrust immunity to withdraw from IATA tariff conferences where discussions include through fares between the U.S. and any country that has designated a carrier that has been granted antitrust immunity. (Order 96-6-33 at 2 and Order 96-11-1 at 2) Northwest and KLM have agreed to the same restriction. (Order 96-5-12 at 27, n.56) Continental and COPA will comply

with any such restriction by the Department on their future participation in IATA tariff coordination conferences.

8. Describe any effect of granting the application on Continental's Civil Reserve Air Fleet (CRAF) commitments.

Granting this Joint Application will have no effect on Continental's CRAF commitments.

9. Describe any labor effects of the proposed alliance, and whether, how, and to what extent employees of Continental and COPA will be integrated. In particular, state whether the transaction or a similar type of transaction has been the subject of recent collective bargaining discussions between Continental and its unions. Provide a discussion of whether both union and non-union employees adversely affected by the alliance would be compensated or otherwise protected.

Continental believes that the Agreement raises no significant labor issues. Continental and COPA will remain independent companies, and no significant impact on unionized employees is anticipated under the Agreement. Continental and COPA believe that the long-term impact of the Agreement will be positive for all existing employees and for new job creation.

10. Describe Continental's ownership interest in COPA and other ownership and control of COPA.

Continental Airlines, Inc. owns 49%, and Corporación de Inversiones Aéreas, S.A. owns 51%, of COPA Holdings, S.A., which owns 100% of COPA. Continental's

ownership interest in COPA Holdings, S.A. does not constitute control of COPA, which remains an independent company.

VI. CONCLUSION

For the foregoing reasons, Continental and COPA urge the Department to approve, on an expedited basis, this alliance agreement under 49 U.S.C. § 41309, and to grant antitrust immunity for the alliance agreement pursuant to 49 U.S.C. § 41308.

Respectfully submitted,

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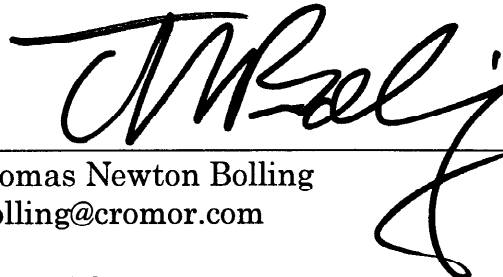
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I certify that I have this date served the foregoing document on the following persons in accordance with the Department's Rules of Practice:

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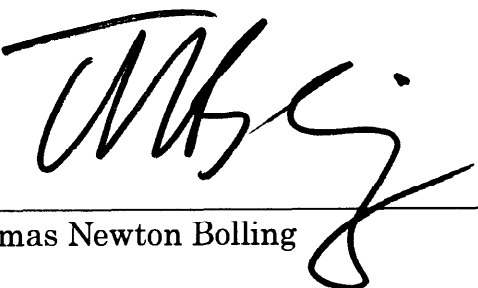
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